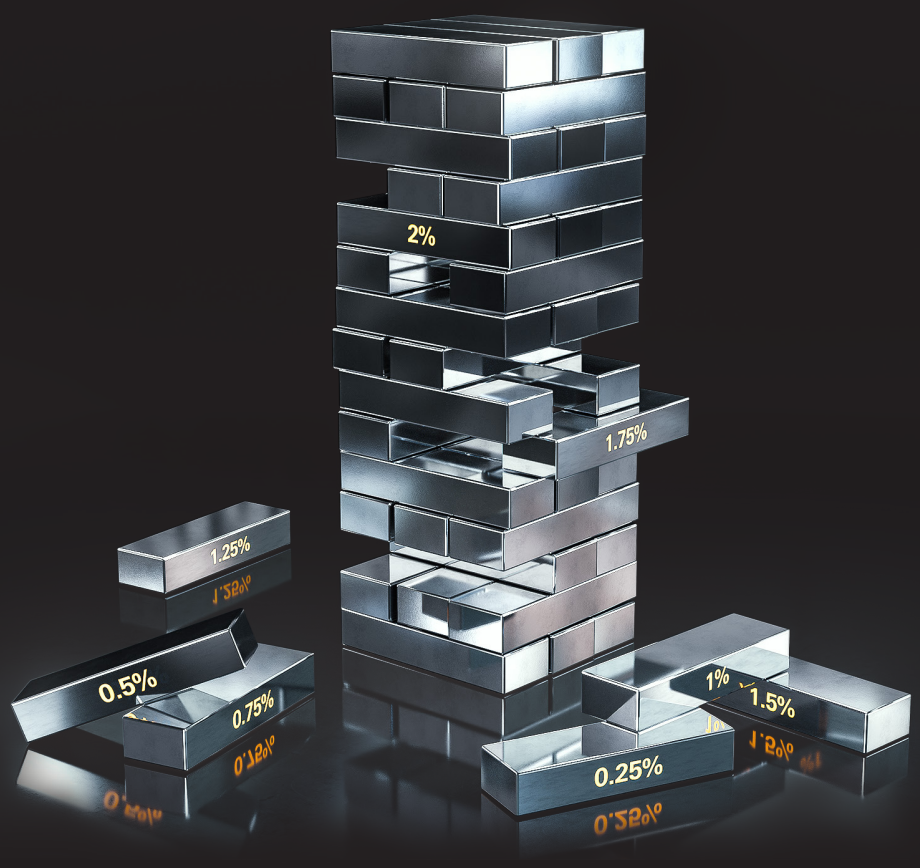
CIO | VIEW

April 2018

Rising interest rates

Will rates unrattle equity markets?



DWS

One more year

Anyone who kept his nerve and bought into the most recent stock-market dip is already ahead again. Now, as has historically occurred during this nine-year-long bull market, such buying opportunities have not only paid off, but have done so in a few months' time. But how many more times will this friendly bull allow brave investors to pat themselves on the back? When do strong nerves turn into hubris? At what point are investors likely to give up on chasing another percentage point or two and become more concerned to lock in profits and cut their risk?

Our view can be summed up briefly: one more good year is possible. The aging bull has not yet run out of legs. We expect the global economy to continue growing for two more years at the same pace as in 2017 – at a lively 3.9%. Only once in the past 50 years has there been a bear market in the absence of a recession – in 1987. The synchronized growth of the global economy is likely to remain a safety net, particularly for equities. However, three years of constant growth could also lead to certain signs of fatigue in stock markets, which crave acceleration and surprise. Consequently, our expectations for overall capital-market returns are not very ambitious.

But markets are unlikely to be as calm and unexciting as this sounds. We anticipate that as the bull gets older and crankier, nasty scares are going to proliferate – for four reasons. First, we expect the four major central banks to overall reduce their balance sheets in the second half of the current year, for the first time since the financial crisis began. Second, many investors have a newish concern: not too little growth but too much. Third, the aggressive protectionist noises from the White House could provoke nasty "accidents" in global trade policy. And fourth, such disturbances could strike when valuations are perched unnervingly high, at the upper end of their historical ranges. If, however, these major hazards are skirted, as we expect, investors are likely to focus primarily on whether, when and to what extent U.S. economic growth may generate rising inflationary pressure, pointing to higher interest rates. But if U.S. rates increase only slightly until cycle end, as we expect, the markets' trend is likely to remain favorable.

Stefan Kreuzkamp
Chief Investment Officer

"A sustained market correction would be very surprising in such a strong economic environment."

CIO | VIEW

April 2018

FOCUS

In early February, the yield on 10-year U.S. government bonds rose above 2.8%. The S&P 500 plunged. Are stock markets right to be nervous? Probably not, if past experience is any guide.

MACRO

We have upgraded our global growth forecasts. Moderate rises in inflation expectations suggest overheating remains unlikely for now. However, there are plenty of other risk factors we are watching.

FIXED INCOME

Despite waning central-bank support, we remain positive on corporate credit as well as emerging markets. High-yield credit fundamentals continue to look stable, thanks to rising corporate profits.

EQUITIES

Despite market jitters, the Goldilocks scenario remains largely intact. We are less worried about rising interest rates than a slowdown caused, for instance, by heightened trade tensions.

ALTERNATIVES

Against a favorable macroeconomic and financial backdrop, there are many reasons for optimism in real estate. Diverging regional performance trends call for a strategic approach, however.

MULTI ASSET

Volatility is back. Due to rising interest rates and rising trade tensions, further volatility spikes are both likely and likely to prove difficult to predict. We explain how to manage such episodes.

OUR FORECASTS

We have upgraded our economic growth forecasts for the United States, the Eurozone and the world econ-omy as a whole. This should support equities. In currency markets, we expect a dollar rebound.

ABOUT US

DWS offers individuals and institutions traditional and alternative investments across all major asset classes.

Rising interest rates

» Will rates unrattle equity markets? «

Don't fight the Fed[1] – this is an old stock-market rule. What the rule points to is that stock markets, just like many other markets, react negatively to interest-rate hikes by the U.S. Federal Reserve (the Fed) but positively when rates are lowered. The Fed is currently applying the brakes by raising rates. The yield on 10-year U.S. government bonds responded by rising to over 2.8%, and the S&P 500 then slumped by 8.5% in the first six trading days of February. Following this correction, many investors fear that further rises in interest rates could again put pressure on stock markets. But is this fear justified?

In theory it sounds plausible. John Burr Williams explained 80 years ago[2] that the value of a share reflects the value of its discounted dividends. If interest rates rise, the present value of the dividends, which together make up the share's value, declines. If interest rates decline, the present value of the dividends – and therefore the share's value – increases. If both dividends and interest rates increase, because, for example, inflation is accelerating, this should generally have a neutral effect on the share's value.

So far so good. In practice, however, inflation, profits and dividends fluctuate and are hard to predict. This is due to the twists and turns of the economy. When there is pessimism about growth, profit expectations and interest rates usually decline, and stock markets fall. When there is optimism about growth, profit expectations and interest rates usually rise, and markets gain.

THE EXAMPLE OF THE DOTCOM BUBBLE

Markets have sometimes ignored the "don't fight the Fed" theory. In the second half of the 1990s, the internet flourished – and so did fantasies about growth and profits. Stocks rose sharply. Even the rise in interest rates that began in June 1999 and ended in May 2000 did little to dampen investor enthusiasm – until March 2000. The sudden bursting of the dotcom bubble, followed by the terrorist attacks on September 11, 2001, sowed doubts about growth. The federal funds rate declined in 13 steps from 6.5% at the beginning of 2001 to 1% in June 2003. Declining interest rates should, in theory, have buoyed stocks. In practice, falling profit and dividend expectations more than offset the interest-rate decline – and stocks fell as a result.
During the economic downturn that followed the bursting of the dotcom bubble, investors were extremely pessimistic. In 2003, the optimists slowly regained the upper hand. Growth forecasts were upgraded, and bond yields increased. At the same time, rising profit and dividend expectations resulted in stock-market gains. The positive earnings effect offset the negative interest-rate effect.

ANOTHER EXAMPLE: THE FINANCIAL CRISIS

The housing and financial crisis that began in 2007 also revealed the significance of profit expectations for stock markets. Returns fell to record lows due to deep pessimism about economic growth. Both the yield on conventional 10-year U.S. government bonds – which reflects expectations about nominal growth – and the yield on inflation-protected 10-year U.S. government bonds – which reflects expectations for real growth – declined. The decline in bond yields and the convergence of nominal and real yields showed that investors expected a significant weakening of the medium- to long-term growth trend and an end to inflation.

Indeed, prices increased at a much slower pace in the years following the onset of the crisis. In an environment without inflation, companies had little flexibility to pass on rising costs through prices. Sales also increasingly came under pressure during the crisis. Profits plunged. Lower medium-term inflation and growth expectations also contributed to a sharp drop in profit expectations. Stock values fell sharply during the recession that lasted from late 2007 until June 2009. Growth optimism then gradually returned. Forecasts for future profits rose, and share prices increased again.[3]

THE INTEREST-RATE TEMPO DECIDES

Following the financial crisis, interest rates were cut and remained at rock bottom; following the dotcom crisis they gradually rose. In both cases, share prices increased. But what happens when bond yields increase rapidly and sharply? The events of 1999 provide a good example. At the time, high growth and inflation expectations led the Fed to sharply increase its benchmark rate, and bond yields soared. Yet, stock markets continued to rise strongly. The downturn didn't come until March 2000. Although

"don't fight the Fed" eventually proved accurate, this maxim wasn't especially helpful in choosing the right time to buy or sell.

In summary, the current low bond yields indicate that only moderate growth is expected. The gap between conventional and inflation-protected bond yields has increased slightly since mid-2016 but remains small. Inflation expectations are trending upward but remain historically low. The Fed is therefore normalizing its monetary policy in small steps, resulting in a gradual interest-rate increase. History has shown that stock markets perform positively when only a modestly rising interest-rate environment is expected. We therefore retain our positive expectation for equities.

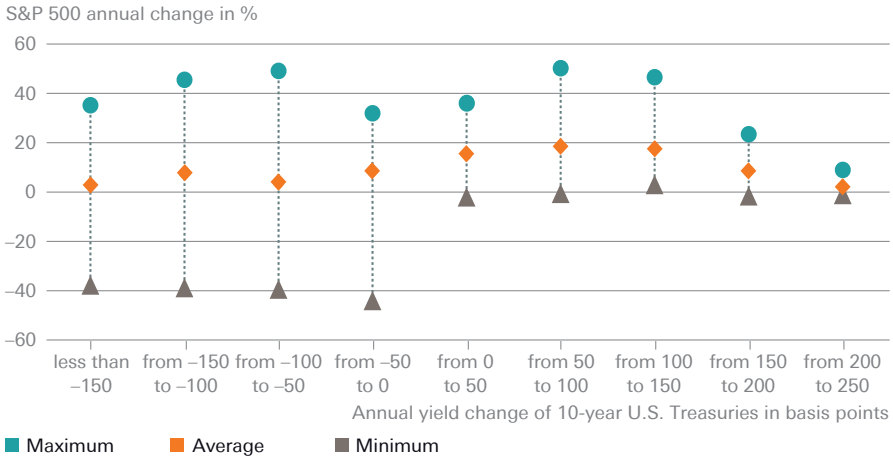
YIELDS ON 10-YEAR U.S. GOVERNMENT BONDS

The yields on conventional and inflation-protected U.S. government bonds give indications of growth and inflation expectations.

Source: Thomson Reuters Datastream as of 3/3/18

STOCK PERFORMANCE AS BOND YIELDS CHANGE*

From January 1991 to February 2018, the S&P 500 performed best when bond yields were rising moderately.



* Calculation period between Jan. 1991 and Feb. 2018;
Source: Thomson Reuters Datastream as of 3/3/18

[1] Quote from Martin Zweig's Winning on Wall Street. New York, 1986

[2] John Burr Williams: The Theory of Investment Value. Amsterdam, 1938

[3] The quantitative-easing program of the U.S. Federal Reserve resulted in declining interest rates from late 2008 onward but meant that yields were a less meaningful expectation barometer for growth. In May 2013, the Fed announced a reduction in quantitative easing. In October 2014, the Fed ended this bond-purchase program.

As good as it gets?

» So far, our upbeat base case for the global economy is looking good «

Johannes Müller
Head of Macro Research

IN A NUTSHELL

We have upgraded our economic growth forecasts for the United States, the Eurozone and the world economy as a whole.

Moderate increases in inflation expectations suggest that the risk of overheating remains limited.

The U.S. trade measures announced so far should only have a very moderate impact on overall economic activity.

Back in November, we asked "What could possibly go wrong", when we described our upbeat base case for the global economy. So far, our optimism has proven well warranted. We have upgraded our economic growth forecasts for the United States, the Eurozone and the world economy as a whole.

In the U.S., we now see 2.6% growth for 2018. Since November, tax cuts and further deregulatory measures have helped boost business sentiment. The latest U.S. fiscal stimulus is quite unique coming so late in the economic cycle and at a time of near full employment. A sustained uptick in investment or consumer spending would increase overheating risks. For now, relatively low capacity utilization suggests that inflation inertia is likely to persist well into 2019. Inflation expectations have been rising but are still at moderate levels. It also remains to be seen how much tax cuts and further deregulation might boost potential growth in the medium term.

It is a similar story in Europe, where we have upgraded our Eurozone growth forecast to 2.3%, well above potential. On both sides of the Atlantic, we see inflation only slowly grinding upwards. Against this backdrop, we expect both the Fed and the European Central Bank (ECB) to remain fairly cautious. For the Fed, we expect three more rate hikes through March 2019. Meanwhile, the ECB will probably not start raising rates for at least another year. However, we do expect it to end its quantitative-easing measures in the fourth quarter of 2018. Emerging-market growth looks solid, on the back of a strong global economy, increased domestic demand and reform momentum in key countries. Notably, political uncertainty has decreased in China, following the 19th Party Congress. Politics is also one of two potential sources of risk we are watching closely. The other, related one concerns financial markets.

Rising geopolitical tensions have long played a perhaps surprisingly minor role in both market perceptions and business sentiment. For much of the first year of the Trump presidency, it looked as if the new Republican administration might actually prove quite conventional, in terms of its economic priorities. Since then, personnel changes and major policy announcements via Twitter have repeatedly caused market jitters. For now, we remain fairly confident that major blunders, such as an escalating trade war between the U.S. and China, will be avoided.

The trade measures announced so far should only have a very moderate impact on overall economic activity. From the outside, they look more like negotiating tactics. China appears to be ready to talk. Things would clearly be different if trade frictions resulted in global supply chains coming under threat. Both sides have much to lose, giving them plenty of incentives to avoid such an outcome. Trade wars are never good and rarely easy to win. Even mere threats risk undermining

the rules-based global trading system further. It is likely to take years rather than months, however, for the impact to start to appear in the economic data.

A more immediate issue could be a return of instability in markets spilling over to the real economy. This could take various forms, including concerns over rising deficits. However, the real problem may be less attention-grabbing than some kind of fiscal crisis. The more the government borrows during times of full employment, the fewer the available resources for other, potentially more productivity-enhancing things. Interest rates rise, and growth of the nation's capital stock slows. This limits the scope for fiscal stimulus during the next recession.

All of these look more like medium- or longer-term threats than like causes for concern during the next twelve months. As my colleagues describe on the following pages when looking at the various asset classes, the underlying picture in terms of corporate earnings, for example, remains strong. And any sudden deterioration in financial-market conditions would probably be muted and eventually reversed by central banks once again coming to the rescue. For now, the outlook continues to be reassuringly solid.

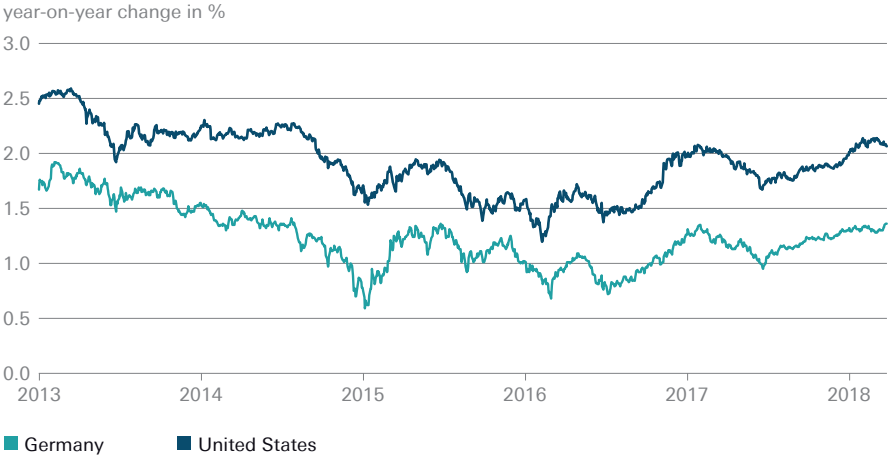
A U.S. DEFICIT UNLIKE ANY OTHER

Outside of wartime, it is virtually unprecedented to see rising U.S. federal deficits of this magnitude at a time of near full employment.

Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 3/28/18

RISING INFLATION EXPECTATIONS

For almost two years, breakeven inflation rates, as derived from inflation-linked securities, have been rising in both Germany and the United States.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 3/28/18

Pockets of opportunity

» We continue to see opportunities, especially in high yield. Buy the dips, but selection is key. «

Jörn Wasmund
Head of Fixed Income/Cash

IN A NUTSHELL

With central-bank support beginning to wane, fixed-income investing looks set to get trickier than it has been for much of the cycle.

We remain positive on corporate credit in general, as well as on emerging-market bonds, both sovereigns and corporates.

High-yield credit fundamentals remain mostly stable, on the back of rising corporate profits and low default rates.

It has been a volatile few months. As we look ahead to the next 12 months, we see three major themes shaping fixed-income returns. First, we expect the dollar to start to strengthen again against the euro. Recent dollar weakness looks overdone and key arguments do not hold, in our view, as explained in the next article.

Second, we expect the yield of both 10-year U.S. Treasuries and 10-year Bunds to increase. However, we do not anticipate a selloff in Treasuries. Rises in yields are likely to continue to be driven by strong and synchronized global economic growth, rather than a sharp uptick in inflation. Instead, we see inflation edging only slightly upwards. As a result, the U.S. yield curve is likely to flatten further, but not to invert. This is important, as historically, every U.S. recession since World War II has been proceeded by an inverted yield curve (a correlation which the new Fed president has recently tried to play down). Given solid growth momentum, we do not yet expect markets to start pricing in a U.S. recession during the next 12 months.

Against this backdrop in rates, we expect risk-on sentiment in markets to return, though higher volatility may persist. This should favor corporate credit over sovereigns. The bottom line is that from autumn 2018 onwards, markets may start to anticipate late-cycle economics. With central banks' cumulative balance sheets beginning to shrink in the second half of the year, fixed-income investing looks set to get trickier than it has been for much of the cycle. In general, we prefer shorter maturities in government bonds. However, there are still pockets of opportunity, even in fairly surprising places.

Among developed-market government bonds, we would single out Italy. Despite the surprising electoral strength of anti-establishment parties, we could actually see some tightening, once political uncertainty related to the new government formation calms down. This should result in positive absolute returns for Italian bonds; we favor the three- to seven-year range, due to carry and roll-down effects.

We remain positive on corporate credit in general. Risks from recent protectionist measures and geopolitical tensions need to be monitored closely, to be sure. However, we do not anticipate lasting consequences on risk sentiment. Instead, we consider recent events in both equity markets and certain corporate-bond segments as a bull-market correction rather than the beginning of a bear market for risky assets. To be sure, the likely phasing out of the ECB's corporate-bond purchase program could change the markets' dynamics. We would expect this to happen by the end of 2018. Keep in mind, however, that the ECB will continue to be a buyer through coupons and reinvestments of maturing bonds, probably for quite a while.

In high yield, we see a strong case for buying the dips. Credit fundamentals

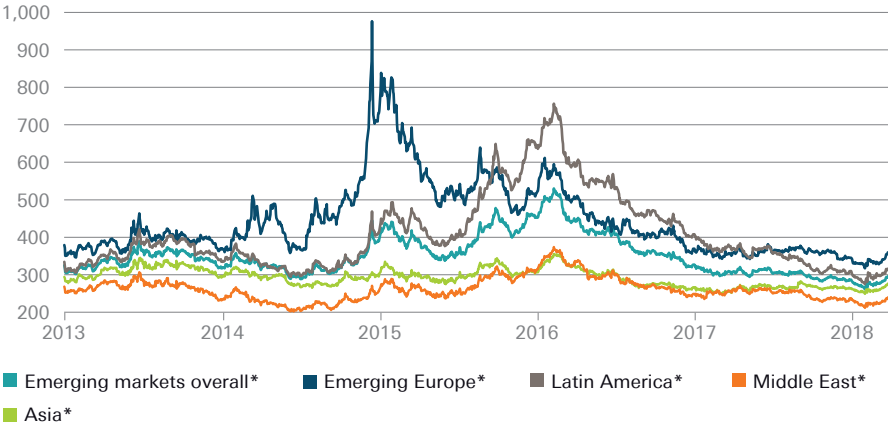
are mostly stable, on the back of rising corporate profits and low default rates. New-issue proceeds are predominantly used for refinancing, not bondholder-unfriendly activities. However, selection and active management remain key. Supply dynamics are fairly supportive. In the year to date, we have seen declines in new-issue volumes of 11% in the United States, to $43bn, and 17% in Europe to €10bn. This compares to outflows of $13.8bn in the United States and €4.4bn in Europe. Valuations have become more attractive both in Europe and in the United States, where we have a positive bias towards single Bs and a focus on issuers likely to benefit from rating upgrades or merger-and-acquisition activity.

Emerging-market bonds of both sovereign and corporate issuers also remain an attractive asset class. Stable commodity prices as well as stronger domestic and synchronized global economic growth are all supportive. Yield levels remain compelling. The asset class also benefits from a positive rating drift, with more issuers being upgraded than downgraded. One problem is that a lot of good news, notably on structural reforms in key markets during recent years, is already priced in. Potential headwinds could come from a sudden spike in rates and a significantly stronger dollar.

EMERGING-MARKET BOND SPREADS

Emerging-market corporate-bond spreads remain fairly attractive. However, regional variations have narrowed.

spread vs. U.S. Treasuries in basis points



* J.P. Morgan CEMBI Broad and its respective sub-indices for Asia, Europe, Middle East, Latin America
Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 3/29/18

HIGH YIELD VS. GOVERNMENT BONDS

In recent months, option-adjusted spreads of high-yield bonds have stabilized in the United States and risen slightly in Europe.

option-adjusted spread vs. government bonds in basis points

* ICE BofAML Euro High Yield Constrained Index
** ICE BofAML US High Yield Constrained Index
Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 3/28/18

The case for a dollar recovery

» We believe that dollar weakness has gone far enough. Over the next 12 months, the greenback should recover. «

IN A NUTSHELL

Many of the commonly held explanations for recent dollar weakness do not stand up to scrutiny.

Over the next 12 months, we expect fundamentals to reassert themselves.

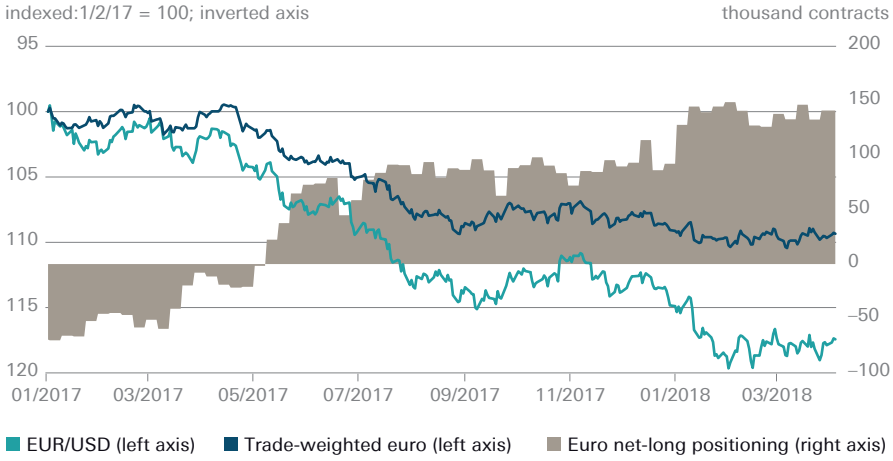
By the end of our forecasting horizon, we continue to see the dollar trading at 1.15 against the euro.

There is no shortage of commonly held explanations for why the dollar has continued to weaken. Look more closely, however, and many of them fall apart. For example, many expect the widening U.S. twin deficits to put pressure on the dollar. However, current-account deficits have little predictive value for both the dollar and other currencies, at least in the short to medium term. Add deteriorating government finances, the other half of the twin-deficit thesis, and a more nuanced picture emerges. There appear to be significant time lags before combined fiscal and current-account deficits contribute to currency weakness; the dollar initially strengthened in the 1980s. Much also depends on the levels the twin deficits are at. For now, they remain fairly moderate.

We believe that dollar weakness against the euro has gone far enough. Make no mistake, by the way, that what we recently saw was dollar weakness rather than euro strength. After all, the trade-weighted euro barely moved. Over the next 12 months, we expect fundamentals to reassert themselves. These include swifter U.S. economic growth, thanks, amongst other things, to recent tax cuts and higher government spending. Interest-rate differentials also favor the dollar and look set to continue to do so for quite a while. On top of that, market positioning remains at extreme levels, and technical factors also look supportive. On a 12-month basis, we expect the dollar to trade at 1.15 against the euro.

WHAT NEXT FOR THE EURO-DOLLAR EXCHANGE RATE?

On a trade-weighted basis, the euro has been trading sideways. Extreme euro net-long positioning decreases the likelihood of further dollar weakness.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 4/4/18

Hold your nerve

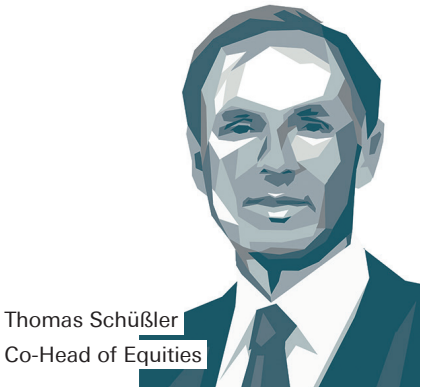
» Based on our growth and interest-rate forecasts, we remain bullish on stocks, particularly after the most recent correction. «

A little bit more gratitude might have been appropriate. It's true that the March meeting of the Fed didn't offer any spectacular surprises and delivered just what many market observers had expected. Nonetheless, just as in recent years, the Fed provided investors with the stuff market rallies are made of: an economy that runs neither too hot nor too cold – the Goldilocks scenario. And this time Goldilocks got cream on her porridge: a little acceleration in growth without any tangible inflationary pressure. The Fed raised its growth forecasts for the United States from 2.5% to 2.7% for 2018 and from 2.1% to 2.4% for 2019. It kept its forecast for inflation in 2018 at 1.9% and raised it to 2.1% for 2019. Thus everything is fine from an investor's perspective. The risk of overheating seems very small if growth is set to peak this year at 2.7% and cool a little next year. The expected pace of growth is neither too hot nor inflationary but on trend: the U.S. economy has grown by 2.5% on average over the past 25 years.

Yet there was no gratitude, and markets continued their correction. Why? In our view, markets are nervous for a combination of reasons. First, due to their strong performance last year and extraordinary start to 2018, stock markets have reached valuation levels that react very sensitively to any slightly weak data point. An example of this, and therefore the second cause of stock-market nervousness, were the purchasing managers' indices, which in the first quarter remained at a high level but could not push higher, or actually declined, as they did in Europe and Japan. Third, there were growing signs by mid-March that Donald Trump might actually implement his protectionist plans. And fourth, the stimuli from the central banks are widely assumed to abate tangibly this year. Fifth, all of this is happening against the backdrop of rising U.S. interest rates. This unsettling cocktail ended the unusually long phase of very low stock-market volatility. And the rise in volatility to more normal levels itself affected share valuations negatively by increasing the risk premium demanded by investors. At the same time, it allows active managers to take advantage of market fluctuations with portfolio shifts and adjustments in their cash holdings.

OUR POSITIONS

We are largely maintaining our cyclical bias, though with some adjustments. From a tactical viewpoint, we have downgraded the materials sector to neutral and upgraded the real-estate sector to neutral. After a long phase of weakness, real estate is trading at a significant discount to the overall market. Investors tend to avoid bond-proxy sectors when interest rates are rising but our interest-rate forecasts are below those of the market. It would take a sharp rise



Thomas Schüßler
Co-Head of Equities

Andre Köttner
Co-Head of Equities

IN A NUTSHELL

The Goldilocks scenario remains largely intact – decent growth, tame interest rates – even though market jitters might indicate something else.

We are less worried about rising interest rates than about a slowdown caused, for example, by trade disputes.

in interest rates to harm stocks in general and high-dividend equities in particular. Although the latter tend to perform worse than cyclical stocks in an environment of rising interest rates, a look at U.S. market history shows that the increase in interest rates had to exceed 200 basis points within one year in order to drive dividend stocks into the red. Therefore we see yields of more than 3.5% on 10-year U.S. government bonds as a critical level. If yields stay below that, stocks should prove resilient. What's more, dividend-payers once again lived up to their defensive nature during the correction in mid-March and may therefore appeal to investors who want to be on the relatively safe side in a more volatile year.

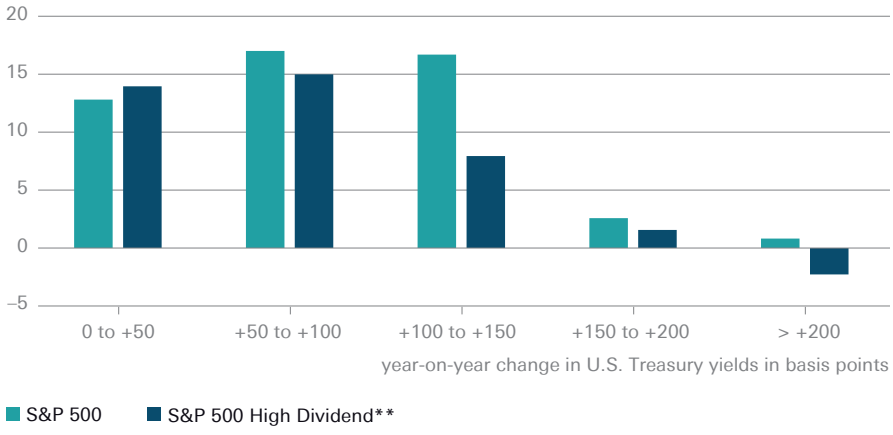
In the materials sector, we are mainly concerned about elevated steel inventories and rising oil production. We continue to view the tech sector positively. Although it further increased its valuation premium by again outperforming the market in the first quarter, this was undermined by operating results. We do, however, recognize that particularly the larger tech companies are facing increasingly stringent and possibly expensive regulatory headwinds. A new stage appears to have been reached, with issues such as data security and privacy rights being discussed even in the United States.

At the same time, the increasingly protectionist rhetoric from the White House could potentially pose a challenge for export-oriented regions and sectors. The first attempts at implementation are already underway, and this issue is likely to weigh on markets for some time to come. It is difficult to formulate realistic scenarios of what might happen as Trump's economic rationale cannot be deduced easily – especially as more and more U.S. companies are pointing out that they would rather not have this kind of support from the White House. Due to the lingering uncertainty, we have slightly reduced our index targets for Japan, Europe and Germany. However, given that in some cases these regions – like the emerging markets – enjoy record-high valuation discounts against the United States, we are keeping them at overweight and the United States at underweight. Putting the tech sector aside, these regions have already outperformed the U.S. market this year despite all the turbulence, in which they normally wobble more severely than the United States.

STOCKS BUOYED BY SMALL RATE RISES IN THE PAST

As interest rates usually rise due to increased growth, stocks often rise, too. But the threshold so far is 2 percentage points.

median price return during 12-month period in %*

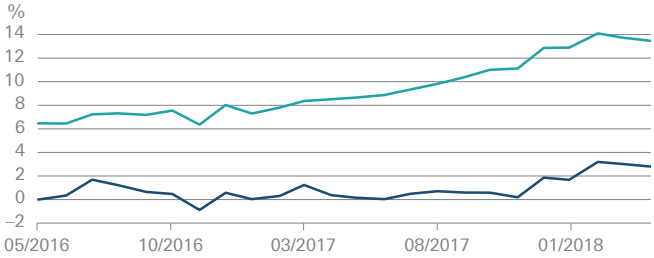


* Calculation period between January 1991 and February 2018
** S&P 500 Dividend Aristocrats Price Index
Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 3/25/18

Valuations overview

U.S. EQUITIES

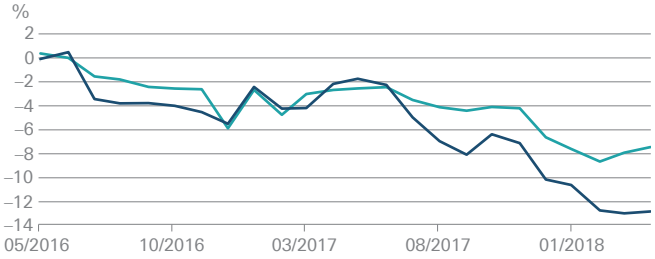
The effects of the tax reform are already evident in U.S. stock markets, as earnings forecasts and share buybacks rose sharply in the first quarter. However, the market correction in February neutralized the initial market rally and exposed investors' main concern: rising interest rates. Although we don't expect a significant increase in rates in the medium term, we are keeping U.S. equities at underweight due to their high valuation.



- Relative valuation (P/E ratio): S&P 500 vs. MSCI AC World Index
- Relative performance: S&P 500 (in dollars) vs. MSCI AC World Index (in local currency)

EQUITIES EUROPE

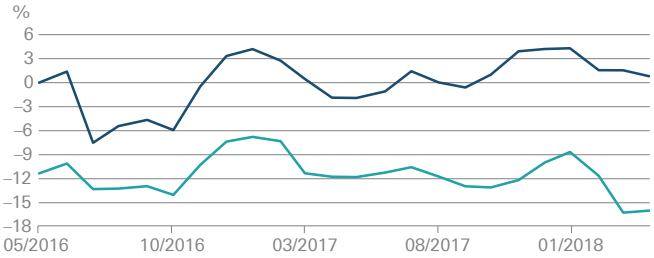
European equities remain overweight. As an export-oriented region, Europe continues to benefit from the sound global economy. Even the strong euro has had little negative effect so far, and we do not expect the euro to appreciate further in 2018. Other positive factors include a strong domestic economy and increasing investment activity in Europe. European equities should also benefit more than other regions from global reflation.



- Relative valuation (P/E ratio): Stoxx Europe 600 vs. MSCI AC World Index
- Relative performance: Stoxx Europe 600 (in euros) vs. MSCI AC World Index (in local currency)

EQUITIES JAPAN

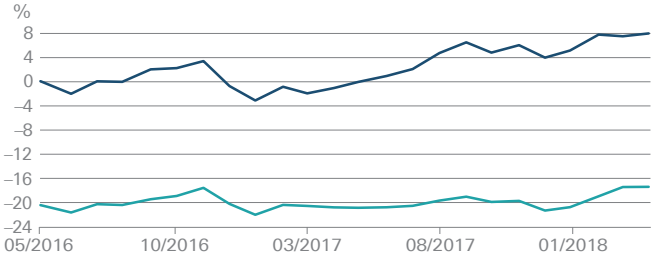
We are also maintaining an overweight on Japanese equities. Besides data from exporting companies being affected surprisingly little by the stronger yen, domestically-oriented companies are showing a high level of confidence. They are benefiting from the upward trend in consumer confidence, partly due to further declines in unemployment. Given further increases in earnings estimates, we do not consider Japanese securities to be overvalued.



- Relative valuation (P/E ratio): MSCI Japan Index vs. MSCI AC World Index
- Relative performance: MSCI Japan Index (in yen) vs. MSCI AC World Index (in local currency)

EQUITIES EMERGING MARKETS

We are keeping emerging-market equities at overweight. Solid global growth and rising inflation are an ideal backdrop, particularly for raw-material-rich countries. We expect profits to grow by 20% this year after an even more im-pressive 27% in 2017. The reporting season has been very encouraging so far. Should the U.S. dollar appreciate considerably beyond our forecast, however, the market might not perform as well.



- Relative valuation (P/E ratio): MSCI Emerging Markets Index vs. MSCI AC World Index
- Relative performance: MSCI Emerging Markets Index (in dollars) vs. MSCI AC World Index (in local currency)

Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH as of 3/30/18

Another solid year expected

» We remain positive on global real estate, but selection and a proper global diversification strategy remain vital. «

Mark G. Roberts
Head of Research & Strategy, Alternatives

IN A NUTSHELL

There are many reasons for optimism, from solid tenant demand to a still favorable financial and macro-economic backdrop.

While there are pockets of excess supply, new construction activity generally remains below historic averages.

However, relative performance within and across regions and sectors is likely to diverge, requiring a strategic approach.

What a difference a year makes. For the world economy as a whole, the outlook has improved considerably. As a result, investors can find optimism in the real-estate market in a number of ways. First, stable employment growth in most markets should continue to translate into sustained tenant demand for property. Second, inflation-adjusted or "real" interest rates tend to be low, if not negative, in most markets; moreover, real rates remain below historic averages suggesting limited capital-market risk.

The third factor relates to fiscal policy, which has become less austere and, in the case of the United States, very supportive of economic growth. This contrasts sharply with the picture for much of the last decade. Fourth, the risk of recessions looks very limited. While we are likely to see central banks increase short-term rates in the United States and some other markets, marginal increases in rates would still lead to below-average interest rates and positively-sloped yield curves. Viewed through the lens of history, this suggests the next U.S. recession remains unlikely within our 12-month forecasting horizon. Fifth, while there are pockets of excess supply, new construction activity generally remains below historic averages.

Furthermore, we are not seeing the type of aggressive and accommodative leverage used in the real-estate market leading up to the credit crisis. Indeed, the market for commercial mortgage-backed securities (CMBS) remains a shadow of its former self in both Europe and the United States. Institutional and bank lending also appears to have acquired a higher degree of discipline. As a result, real-estate-income yields provide a reasonable risk premium compared to lending rates. To be sure, there has been some volatility in the financial markets recently, but as my colleagues argue, any tightening in financial conditions should be temporary.

With these factors in place, we expect real estate globally to continue to provide attractive total returns in the range of 5% to 8% on an unleveraged basis through 2019 and outpace the bond market while providing a competitive return to equities. What has changed is the expected relative performance of various regions. Moreover, broad regional figures overlook the dispersion in returns that can be achieved at a city, country or sector level. For example, we expect total returns of 6% to 7% for the United States through 2019. However, we believe higher returns can be achieved by overweighting the industrial and logistics sector while also underweighting certain large markets, such as New York or San Francisco, which comprise a disproportionate share of the index.

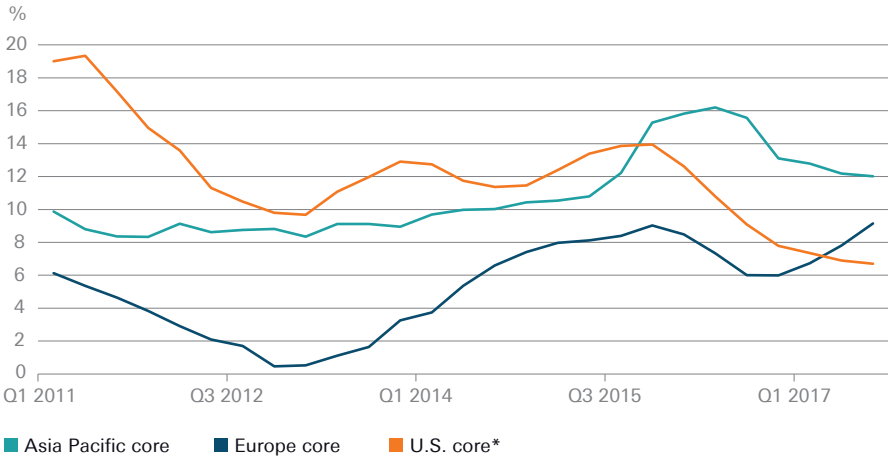
Turning to Asia Pacific, we remain very positive on the region, expecting higher total returns than the U.S. in the range of 6% to 8%. The real-estate market in Asia Pacific is underpinned by economic growth well in excess of the rates seen in the United States and Europe. The core office and logistics markets in Australia should

continue to outperform our regional average. Japan is also expected to post high-single-digit levered returns due to the low cost of borrowing and improving economic prospects. Singapore, which traditionally sees a wide dispersion in returns through the course of a market cycle, is once again poised for a cyclical recovery due to improving global economic trade.

Finally, economic prospects in Europe have turned markedly more positive over the last twelve months. Over the next two years, we expect prime total returns in the range of 7% to 7.5%. While supply is increasing, declining unemployment in most markets combined with strong occupier demand, positive rent growth, higher releasing rates and declining vacancy rates should lead to positive momentum in total returns in 2018. Furthermore, swap-spread rates remain low. Within a global context, the European real-estate market appears like an attractive destination for a number of international investors. Of course, a proper global diversification strategy, taking into account relevant foreign-exchange-rate risks, remains critical. So does selecting the right segments and locations within each region.

REAL-ESTATE RETURNS DIVERGE REGIONALLY

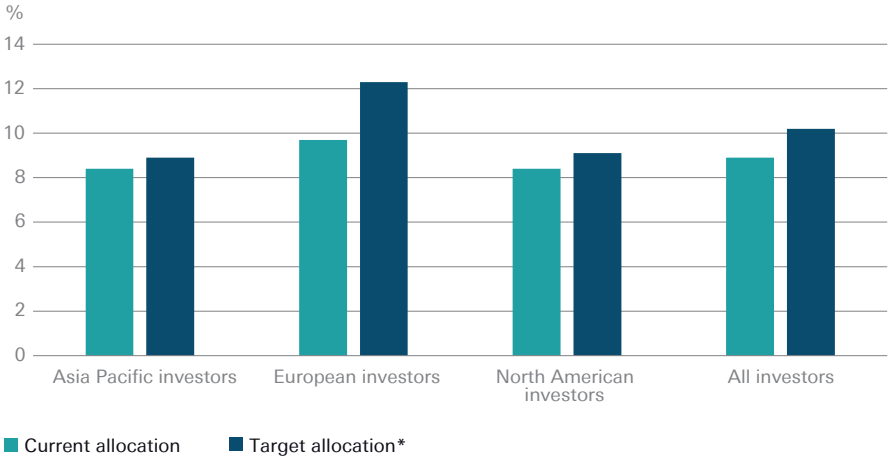
Compared to the United States, non-listed real-estate funds from the Asia Pacific region continue to do well. Europe has lately been catching up.



* NCREIF ODCE Index
Sources: ANREV, INREV, NCREIF as of 10/2017

SCOPE FOR HIGHER REAL-ESTATE ALLOCATIONS

Investors appear to have allocated less than their target allocations to global real estate. The gap is especially large for European investors.



* Target allocations are weighted based on real-estate assets. No assurance can be given that target allocations will be reached.
Sources: Investor Intentions Survey of PREA, INREV and ANREV as of 1/16/18

Managing volatility

» Some fear too much growth, others too little. In either case, the markets' increased volatility should be manageable. «

Christian Hille
Head of Multi Asset

IN A NUTSHELL

Volatility was unknown in the markets in 2017 but has been on everyone's mind again since the correction in late January.

It will likely remain high due to a combination of rising interest rates, fear of overheating and protectionist talk.

We aim to make provisions for both high and low volatility. Not aggressively, but elegantly.

In retrospect, 2017 would have been an almost perfect year for relying on the autopilot. But in 2018, investors have to be wide awake: focused on the road, with both hands on the wheel and prepared to change direction and speed at a moment's notice.

Although only in its early stages, 2018 has already put an end to last year's serenity. On February 8, after more than 400 days, the S&P 500 ended its longest stretch to date without a 5% correction. What's more, the U.S. stock index has already experienced 20 fluctuations of more than 1.0% year to date, two-and-a-half times as many as during the entirety of 2017. And the Vix, which represents the implied volatility of the S&P 500, registered its biggest single-day increase ever on February 5, both in percentage and absolute terms. In 2017, the Vix remained below 10 for 55 days, which is indeed remarkable given that it had only spent 10 days below the 10 level from its introduction in June 1990 until the end of 2016.

The first doomsday scenarios began to circulate when the S&P 500 slid below its beginning-of-the-year level for the first time on February 5. Since then, most markets have hovered around their end-2017 levels, with increased volatility. If high volatility is defined as being above a threshold of 20 points in the Vix, the high-volatility period in January and February lasted for 21 trading days. The next phase of wild market swings began on March 22. According to this definition, 2017 did not experience a single day of high volatility (see chart). Investors have to look back to the beginning of 2016 to find a longer period of high volatility.

OUR MARKET FORECAST...

What will happen next? Volatility seems to have bottomed in 2017. The current interest-rate cycle and signs that the major central banks (Eurozone, Japan, United States) may start to reduce their balance sheets (by the fourth quarter of this year at the latest) can no longer be ignored by markets. We have identified the return of the Phillips curve as a major risk scenario for the next one to two years, and one which can be even more severe should the curve return in a non-linear shape: The risks of a more pronounced acceleration in labor costs would rise if labor markets continued to tighten, increasingly so if that tightening were to intensify.

However, this is not our base scenario. We don't expect a significant upward movement in inflation or interest rates in this cycle. The Fed might end its rate-hike cycle at around 3%. We still expect a more volatile year, as investors will have to come to terms with the rise in interest rates and fears about overheating. But the synchronized global recovery should, at the same time, continue to act as a safety net and could prolong stock markets' late-cycle glow. Sudden spikes of volatility cannot, however, be ruled out, even though average volatility is expected to rise only slightly in the medium term.

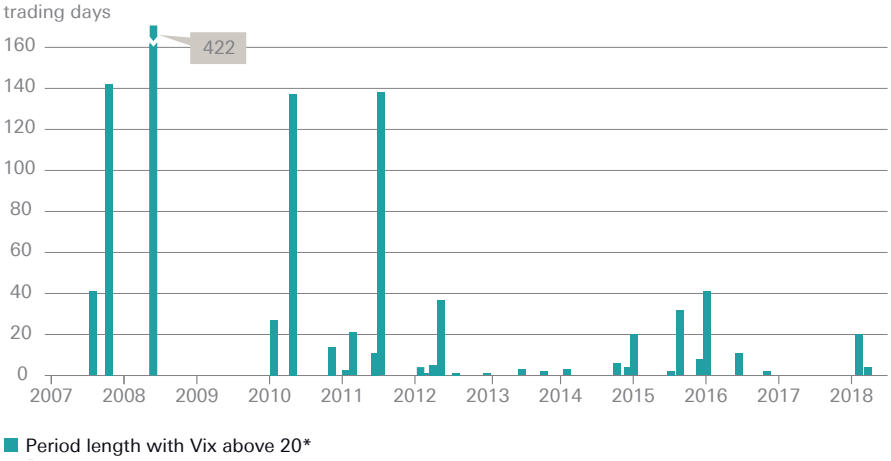
...AND HOW WE POSITION OURSELVES

In the face of potential volatility spikes, we will not pursue any strate-

gies that take an aggressive short-volatility position. There are certainly more elegant ways of benefiting from volatility or changes in volatility. For example, investors can take advantage of price inconsistencies resulting from the convexity of volatility products. Also appealing is the writing of put options – in other words, covered option transactions. This strategy has become even more interesting due to the slight rise in the average volatility level. The second chart shows an example of how an investment in an S&P 500 put option index would have performed, together with a corresponding cash amount invested in an interest-bearing instrument as collateral. The index performed similarly to the S&P 500 over a period of 20 years, but with significantly lower volatility.

BACK TO NORMALITY

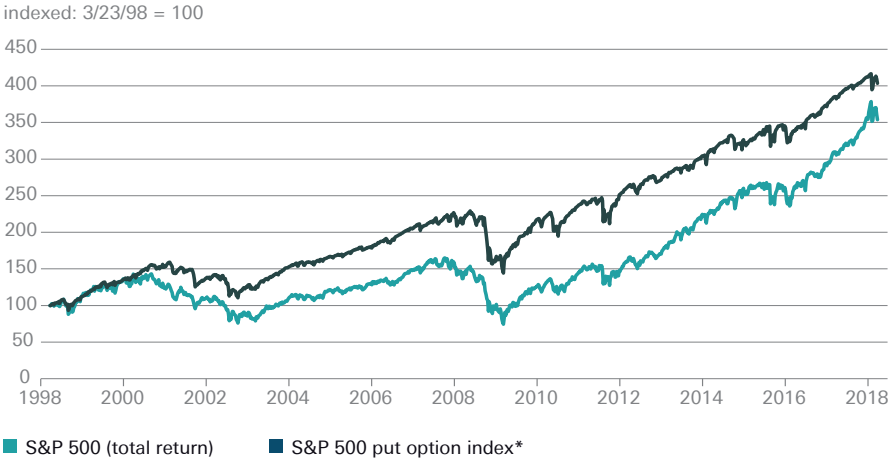
2017 has been a particularly calm year for equity markets. The Vix never topped 20. The chart shows the length of past high-volatility periods.



* A high-vol period ends when the Vix trades below 20 on more than 4 consecutive days
Sources: Thomson Reuters Datastream, Deutsche Asset Management Investment GmbH as of 3/27/18

ALMOST THE SAME RESULT WITH LESS STRESS

Selling S&P 500 put options yielded similar results as buying the S&P 500 long over the past 20 years, but with less volatility.

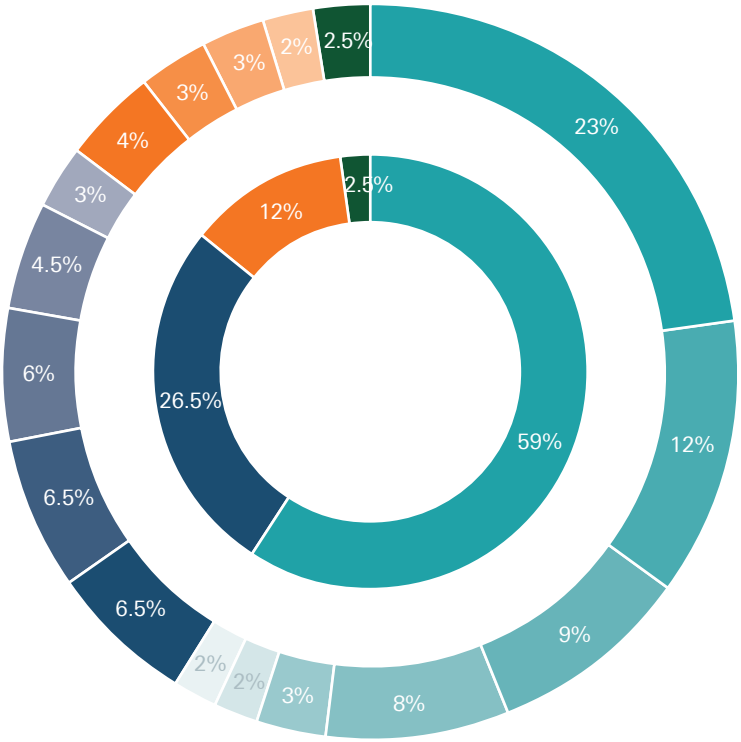


* CBOE S&P 500 PutWrite Index
Sources: Thomson Reuters Datastream, Deutsche Asset Management Investment GmbH as of 3/27/18

Goodbye to Goldilocks

» More volatile and lower-yielding markets should be manageable. «

Volatility has returned, and belief in the Goldilocks scenario is waning. Our macro outlook remains optimistic, but we anticipate nervous markets. In this climate, we slightly prefer stocks to bonds. We foresee only slight differences between regions and rather select on the basis of asset type and sector. In the United States and the emerging markets, we continue to like momentum stocks such as technology. In Europe and Japan, we prefer value stocks. Where bonds are concerned we remain tactically agile and combine defensive and cyclical bonds – the former through floaters, for example, and the latter through emerging-market bonds – in a barbell strategy. We are avoiding corporate bonds in developed markets.



Equity	**59%**
Equities U.S. large cap	23%
Equities Europe	12%
Equities emerging markets	9%
Equities Japan	8%
Global Infrastructure	3%
Equities U.S. small cap	2%
Global REITs	2%
Fixed Income	**26.5%**
U.S. Treasuries	6.5%
Emerging-market (hard-currency) bonds	6.5%
U.S. TIPS	6%
U.S. investment grade	4.5%
U.S. MBS	3%
U.S. high yield	0%
Alternatives	**12%**
U.S. leveraged loans	4%
Convertibles	3%
Commodities	3%
Hedge funds	2%
Cash	**2.5%**

Source: Multi Asset Group, Deutsche Asset Management Investment GmbH as of 3/28/18

The chart shows how we would currently design a balanced, dollar-denominated portfolio for a U.S. investor taking global exposure. This allocation may not be suitable for all investors and can be changed at any time without notice. Please access the DWS CIO View website for monthly updates. Alternative investments involve various risks and are not necessarily suitable for all clients or for every portfolio.

April weather

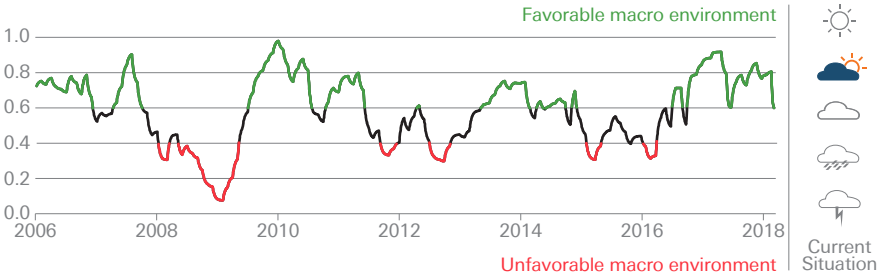
» The skies cloud over «

After 12 almost carefree months, the skies over markets have become cloudier since the beginning of 2018. All three DWS indicators have slipped. The good business climate of 2017 led to rising analyst expectations that now leave little scope for positive surprises. Europe, which has fallen from very positive to deeply negative since the start of the year, has been the main source of strain on the DWS surprise indicator. In Asia and the United States, by contrast, the indicators have risen year to date. Worldwide, however, positive surprises barely have the upper hand now.

Many investors were taken by surprise by the market correction in early February which dampened their risk appetite. Higher market volatility has impacted the DWS risk indicator. As early as in mid-December 2017, our liquidity measure has been indicating a slight degree of tension, which has further weighed upon the risk indicator. As a result, the indicator has signaled a negative environment since early February. Although the DWS macro indicator has declined of late, three sub-indicators remain at maximum levels, pointing to a sound macroeconomic environment. Therefore two of the three DWS indicators are still positive.

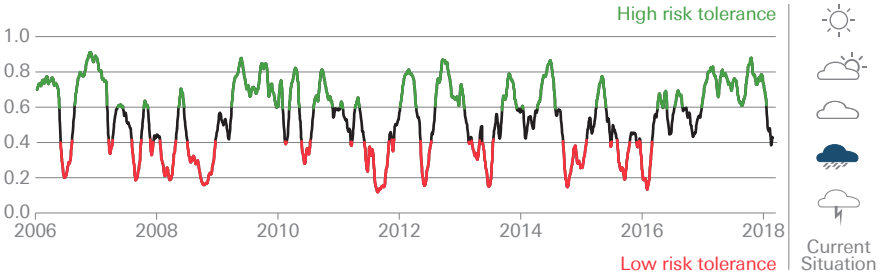
MACRO INDICATOR

Condenses a wide range of economic data



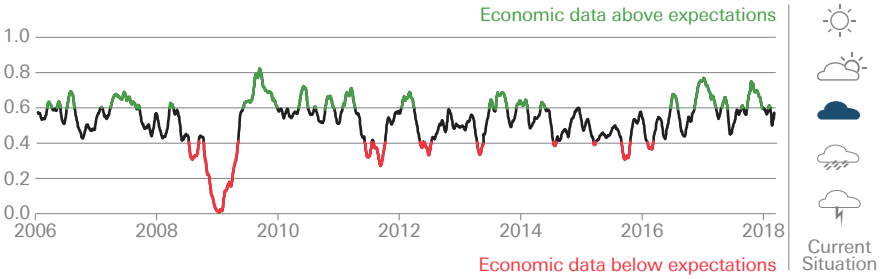
RISK INDICATOR

Reflects investors' current level of risk tolerance in the financial markets



SURPRISE INDICATOR

Tracks economic data relative to consensus expectations



Source: Deutsche Asset Management Investment GmbH as of 3/16/18

Macro | As good as it gets

GDP growth (in %, year-on-year)

	2018F		2019F
United States	2.6	↘	2.4
Eurozone	2.3	↘	1.9
United Kingdom	1.5	↗	1.6
Japan	1.5	↘	1.0
China	6.5	↘	6.3
World	3.7	↗	3.9

Fiscal deficit (in % of GDP)

	2018F		2019F
United States	-4.1	↘	-4.7
Eurozone	-0.9	↗	-0.8
United Kingdom	-2.5	↘	-2.7
Japan	-4.0	↗	-3.8
China	-3.5	↗	-3.2

Consumer price inflation (in %, year-on-year)

	2018F		2019F
United States[1]	1.9	↗	2.0
Eurozone	1.5	↗	1.7
United Kingdom	2.7	↘	2.1
Japan	1.0	↗	1.4
China	2.0	↗	2.2

Current-account balance (in % of GDP)

	2018F		2019F
United States	-2.8	↘	-3.0
Eurozone	3.0	↘	2.9
United Kingdom	-4.0	→	-4.0
Japan	3.8	→	3.8
China	1.5	↘	1.2

Benchmark rates (in %)

	Current*		Mar 2019F
United States	1.50-1.75	↗	2.25-2.50
Eurozone	0.00	→	0.00
United Kingdom	0.50	↗	1.00
Japan	0.00	→	0.00
China	4.35	→	4.35

Commodities (in dollars)

	Current*		Mar 2019F
Crude oil (WTI)	65.5	↘	60
Gold	1,340	→	1,290
Copper (LME)	6,945	↗	7,300

*Source: Bloomberg Finance L.P. as of 4/10/18
[1]core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)
F refers to our forecasts as of 3/22/18
WTI = West Texas Intermediate
LME = London Metal Exchange

Legend applies to this and the following page
– Equity indices, exchange rates and alternative investments: The arrows signal whether we expect to see an upward trend ↗, a sideways trend → or a downward trend ↘.
– Fixed Income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries. ↗ depicts a rising spread, → a sideways trend and ↘ a falling spread.
– The arrows' colors illustrate the return opportunities for long-only investors: ↘ ↗ positive return potential for long-only investors. → limited return opportunity as well as downside risk. ↘ ↗ negative return potential for long-only investors.

Equities | Volatility is back

	Current*		Mar 2019F Forecast	Total return (expected)[1] in %	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500)	2,657	↗	2,850	9.6	14%	-6%	2.4%
Europe (Stoxx Europe 600)	378	↗	390	6.6	7%	-4%	3.6%
Eurozone (Euro Stoxx 50)	3,439	↗	3,640	9.7	9%	-3%	3.9%
Germany (DAX)[2]	12,397	↗	13,500	8.9	8%	-2%	3.2%
United Kingdom (FTSE 100)	7,267	→	7,200	3.4	6%	-7%	4.3%
Switzerland (Swiss Market Index)	8,756	↗	9,100	7.5	25%	-17%	3.5%
Japan (MSCI Japan Index)	1,024	↗	1,080	7.8	5%	0%	2.3%
MSCI Emerging Markets Index (USD)	1,175	↗	1,280	11.6	15%	-5%	2.7%
MSCI AC Asia ex Japan Index (USD)	725	↗	790	11.5	13%	-3%	2.6%
MSCI EM Latin America Index (USD)	3,019	↗	3,200	8.9	22%	-13%	2.9%

*Sources: Bloomberg Finance L.P., FactSet Research Systems Inc. as of 4/10/18
[1]Expected total return includes interest, dividends and capital gains where applicable
[2]Total-return index (includes dividends)

Fixed Income | We remain constructive

United States

	Current*		Mar 2019F
U.S. Treasuries (10-year)	2.80%	↗	3.25%
U.S. municipal bonds	88%	↘	85%
U.S. investment-grade corporates	101 bp	↘	80 bp
U.S. high-yield corporates	341 bp	→	350 bp
Securitized: mortgage-backed securities[1]	75 bp	↗	95 bp

Europe

	Current*		Mar 2019F
German Bunds (10-year)	0.52%	↗	1.00%
UK Gilts (10-year)	1.41%	↗	1.75%
Euro investment-grade corporates[2]	105 bp	↘	75 bp
Euro high-yield corporates[2]	315 bp	↘	260 bp
Securitized: covered bonds[2]	41 bp	↗	51 bp
Italy (10-year)[2]	128 bp	↘	120 bp

Asia-Pacific

	Current*		Mar 2019F
Japanese government bonds (10-year)	0.04%	→	0.10%
Asia credit	230 bp	→	225 bp

Global

	Current*		Mar 2019F
Emerging-market sovereigns	298 bp	↘	285 bp
Emerging-market credit	290 bp	↘	270 bp

Currencies

	Current*		Mar 2019F
EUR vs. USD	1.24	↘	1.15
USD vs. JPY	107.2	↗	112.0
EUR vs. GBP	0.872	→	0.90
GBP vs. USD	1.42	↘	1.28
USD vs. CNY	6.28	→	6.50

*Source: Bloomberg Finance L.P. as of 4/10/18
[1]Current-coupon spread vs. 7-year U.S. Treasuries
[2]Spread over German Bunds
F refers to our forecasts as of 3/22/18
bp = basispoints

The Chief Investment Office …

… plays a central role in DWS's investment process.

… is headed by Stefan Kreuzkamp, Chief Investment Officer (CIO) of DWS[1].

… brings together the expertise of the global investment platform to create a consistent economic and market view.

... serves as a point of contact between the portfolio management, the research teams and the distribution teams.

… prepares our global investment outlook: the CIO View.

DWS …

…is one of the world's leading investment-management organizations with about €700 billion of assets under management (as of December 31, 2017)

… offers individuals and institutions traditional and alternative investments across all major asset classes.

… provides flexible products and solutions to a wide range of investment opportunities across all asset classes – from pooled funds to highly customized portfolios for a wide range of investors.

[1] DWS is the brand name of the Asset Management division of the Deutsche Bank Group. The respective legal entities offering products of services under the DWS brand are specified in the respective contracts, sales materials and other product information documents.

Glossary

» Here we explain central terms from the CIO | VIEW «

In finance, a barbell strategy means avoiding assets with an average risk-reward profile. A common example of this would be to invest in long- and short-duration bonds but not in intermediate-duration bonds.

Technically, a bear market refers to a situation where the index's value falls at least 20% from a recent high.

A bull market is a financial market where prices are rising - usually used in the context of equities markets.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

Capital-market risks refer to any risk factors that can have a material impact on the valuations of financial assets and impact real economic activity.

The carry effect (of an asset) is the cost or benefit from holding the asset.

The CBOE S&P 500 PutWrite Index measures the performance of a hypothetical portfolio that sells S&P 500 Index put options on a weekly basis against collateralized cash reserves held in a money market account.

The CBOE Volatility Index (Vix) is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index. It is a popular measure of the volatility of the S&P 500 as implied in the short term option prices on the index.

The Chinese yuan (CNY) is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

Commercial mortgage-backed securities (CMBS) are mortgage-backed security backed by commercial mortgages rather than residential real estate.

Convexity describes a non-linear relation of a dependent variable from a variable that approaches asymptotically a certain value. The relationship of a bond price from a change in interest rates or of volatility from the remaining time period are two examples.

Covered bonds are securities similar to asset-backed securities (ABS) which are covered with public-sector or mortgages loans and remain on the issuer's balance sheet.

The Dax is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The default rate refers to the proportion of borrowers who cannot service their loans.

A dividend is a distribution of a portion of a company's earnings to its shareholders.

The dotcom bubble refers to the rapid rise and eventual collapse of equity market valuations of technology stocks from the late 1990s to 2001.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

The euro (EUR) is the common currency of states participating in the Economic and Monetary Union and is the second most held reserve currency in the world after the dollar.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

The European Central Bank (ECB) is the central bank for the Eurozone.

The Eurozone is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

The federal funds rate is the interest rate, set by the Fed, at which banks lend money to each other, usually on an overnight basis.

Fiscal policy describes government spending policies that influence macroeconomic conditions. Through fiscal policy, the government attempts to improve unemployment rates, control inflation, stabilize business cycles and influence interest rates in an effort to control the economy.

Floater is short for floating-rate notes which are bonds with a variable coupon that is tied to a reference rate.

The FTSE 100 is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

Gilts are bonds that are issued by the British Government.

The term Goldilocks economy refers to a state of the economy, where there is neither a threat of inflation due to an overheating economy, nor a threat of a recession.

High-yield (HY) bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

The ICE BofAML Euro High Yield Constrained Index is an index of euro-denominated corporate bonds rated below investment grade.

The ICE BofAML US High Yield Constrained Index is an index of dollar-denominated corporate bonds rated below investment grade.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Investment grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) is an index tracking dollar-denominated bonds issued by emerging-market corporates.

The Japanese yen (JPY) is the official currency of Japan.

Leverage attempts to boost gains when investing through the use of borrowing to purchase assets.

Momentum refers to the rate of growth of an index or security's price. Momentum investors believe that strong growth is likely to be followed by further gains.

A mortgage-backed security (MBS) is a special type of asset-backed security where the holder receives interest and redemption payments from pooled mortgage debtors, secured by the underlying mortgages.

The MSCI Asia ex Japan Index captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The MSCI Emerging Markets (EM) Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

Municipal bonds (Munis) are debt securities issued by a state, municipality or country.

The "NCREIF Fund Index – Open End Diversified Core Equity" is a a capitalization-weighted return index of open end real estate funds.

In economics, a nominal value is not adjusted for inflation; a real value is.

The option-adjusted spread (OAS) is a commonly used measure for fixed-income securities with embedded options (call, put or sink). It makes the yield of such instruments comparable to similar securities without such embedded options. Typically, the OAS for credit sensitive instruments is quoted vis-à-vis the respective Swap spread curve. Technically, option pricing methods are used to evaluate the instruments with embedded options.

In economics, the Phillips curve is a historical inverse relationship between rates of unemployment and corresponding rates of inflation.

The pound sterling (GBP), or simply the pound, is the official currency of the United Kingdom and its territories.

A put option is a financial security which gives the owner the right, but not the obligation, to sell an underlying asset at a specified price at a specified time (European option) or during a specified time period (American option).

Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

In economics, a real value is adjusted for inflation.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The term reflation refers to rising prices after periods of severe economic weakness.

The Republican Party (Republicans), also referred to as Grand Old Party (GOP), is one of the two major political parties in the United States. It is generally to the right of its main rival, the Democratic Party.

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

The roll-down effect can form a significant component of returns in fixed income. It arises when longer-term bonds offer higher yields than shorter dated ones of the same issuer. With such a yield-curve, the yield of the bond will decrease as maturity

approaches, and as a result, its value will increase, as it "rolls down" the yield curve.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

The Dividend Aristocrats (S&P 500 Dividend Aristocrats Price Index) are S&P 500 index constituents that have increased their dividend payouts for 25 consecutive years or more.

The spread is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The Stoxx Europe 600 is an index representing the performance of 600 listed companies across 18 European countries.
A swap, a type of derivative, is an agreement between two parties to exchange sequences of cash flows for a set period of time.

The Swiss Market Index (SMI) is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The U.S. dollar (USD) is the official currency of the United States and its overseas territories.

The U.S. Federal Reserve Board, often referred to as "the Fed", is the central bank of the United States.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A yield curve shows the annualized yields of fixed income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

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